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Trustee for the SIPA Liquidation of
Lehman Brothers Inc.*

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re

LEHMAN BROTHERS INC.,

Debtor.

Case No. 08-01420 (SCC) SIPA

**LEHMAN BROTHERS INC. LIQUIDATION BALANCE SHEET
AS OF JUNE 30, 2020**

All information in the Liquidation Balance Sheet is based on information available to the Trustee at this time, but this information may be incomplete and should not be relied upon. The Liquidation Balance Sheet is not meant to be relied upon by investors or others as a complete description of the LBI estate, its condition (financial or otherwise), prospects, assets, or liabilities. The information in the Liquidation Balance Sheet will be updated, including corrections, if any, in future reports to the Court. The information in the Liquidation Balance Sheet is not prepared in accordance with U.S. generally accepted accounting principles. The realized value of certain assets may be zero or different from the estimates on which the Liquidation Balance Sheet are based. Selected balances and information contained herein have not and will not be subject to audit or review by external accountants. The Trustee reserves all rights to revise the Liquidation Balance Sheet.

The information and data included herein are derived from sources available to the Trustee and his professionals at this time. All amounts are unaudited, subject to revision, and should not be relied upon.

Lehman Brothers Inc., in Liquidation
Liquidation Balance Sheet as of June 30, 2020
(Unaudited – *Must Be Read with Accompanying Notes*)

In Millions

Assets

Cash and Cash Equivalents	\$382
Securities	\$0
Total Assets	<u><u>\$382</u></u>

Liabilities

General Creditor Claims:	
Secured*	\$263
Priority*	\$5
Administrative*	\$0
Unsecured*	\$13,639
Administrative Expense Reserve	\$74
Total Liabilities	<u><u>\$13,981</u></u>

*Net of amounts distributed. For example, the \$13.639 billion of unsecured liabilities is net of the \$9.026 billion distributed to general unsecured claimants as of June 30, 2020 (see Note 9). The total (gross) general unsecured claim liabilities were \$22.665 billion as of June 30, 2020.

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General Notes

Note 1 – Basis of Presentation

The Trustee and his professionals have prepared this Lehman Brothers Inc. (“LBI”) Liquidation Balance Sheet (the “Liquidation Balance Sheet”) based on the information available to the Trustee at this time; however, such information may be incomplete and may be materially deficient. The Liquidation Balance Sheet is not meant to be relied upon as a complete description of LBI, its business, condition (financial or otherwise), results of operations, prospects, assets, or liabilities. The Trustee reserves all rights to revise the Liquidation Balance Sheet.

This Liquidation Balance Sheet should be read in conjunction with previous Interim Reports and Quarterly Reports filed with the Bankruptcy Court and included on the Trustee’s website, www.lehmantrustee.com. The Liquidation Balance Sheet is not prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”), and the numbers are unaudited. The Liquidation Balance Sheet does not reflect normal period-end adjustments, including accruals that were generally recorded by LBI prior to the filing of the Securities Investor Protection Act (“SIPA”) proceeding in Bankruptcy Court. The Liquidation Balance Sheet does not include explanatory footnotes and other disclosures required under GAAP and is not presented in a GAAP-based SEC reporting format. Certain items presented in the Liquidation Balance Sheet remain under continuing review by the Trustee and may be accounted for differently in a future liquidation balance sheet. Accordingly, the financial information herein is subject to change, and any such change may be material.

The Liquidation Balance Sheet is not audited and will not be subject to audit or review by external auditors at any time in the future. The Liquidation Balance Sheet is prepared on a cash basis and therefore does not reflect accruals or other amounts that would be found if prepared under an accrual basis format.

Note 2 – Use of Estimates

To the extent necessary, the Liquidation Balance Sheet includes estimates. Estimates are unaudited and subject to revision, and they should not be relied upon.

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and interest-bearing deposits with banks.

Note 4 – Financial Systems and Control Environment

The Trustee has professionals who monitor and maintain the financial systems and control environment of the estate. Procedures, controls, and resources used to create the Liquidation Balance Sheet were modified, including a drastic reduction in resources in comparison to what was available to LBI prior to the SIPA proceeding. The Trustee’s professionals rely on established controls for the payment and journaling of all expenses, which include recording

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payment instructions and supporting documentation, reviewing time-entry diaries, and assessing the reasonableness of rates and bills for services performed. The Trustee and his professionals are continuously reviewing the estate's accounts, and, as a result, modifications, errors, and potential misstatements might be identified. Consequently, the Trustee and his professionals may record adjustments, which may be material, in a future liquidation balance sheet.

Estate internal controls have been validated during the COVID-19 pandemic, as has the Trustee's data storage, back up, and all other estate administrative capability. There has been no interruption of, or slowdown in, the wind down of the liquidation as a consequence of the pandemic.

Notes Regarding Assets

Note 5 – Asset Allocation

All assets on the Liquidation Balance Sheet are currently under the Trustee's control. Following closure of the customer estate in December 2017, all assets are now allocated to the general estate (*see Note 6*). Future recoveries and the release of any reserves will accrete to the general estate.

Note 6 – Fund of Customer Property

In consultation with the Securities Investor Protection Corporation, the Trustee closed the customer estate in December 2017 pursuant to the Court's entry of the Order Authorizing the Allocation and Transfer of the Remaining Customer Reserve to the General Estate, Closing of the Customer Estate, and Related Relief. (ECF No. 14467.) Total allocations of excess customer property to the general estate in this SIPA proceeding were \$3.112 billion.

Note 7 – General Estate Assets

Total general estate assets are \$382 million. The Trustee maintains the following general estate reserves:

- (i) an administrative expense reserve in the amount of \$74 million;
- (ii) a First Interim Distribution Fund in the amount of \$2 million solely with respect to unresolved claims;
- (iii) a Second Interim Distribution Fund in the amount of \$1 million solely with respect to unresolved claims;
- (iv) a Third Interim Distribution Fund in the amount of \$823,924 solely with respect to unresolved claims;
- (v) a Fourth Interim Distribution Fund in the amount of \$308,972 solely with respect to unresolved claims;

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- (vi) a Fifth Interim Distribution Fund in the amount of \$102,991 solely with respect to unresolved claims;
- (vii) a Sixth Interim Distribution Fund in the amount of \$104,981 (includes \$27,738 attributable to holders of allowed general unsecured claims as to which payment is pending);
- (viii) a Secured, Administrative, and Priority Reserve in the amount of \$261 million solely with respect to unresolved claims; and
- (ix) a tax-related reserve of \$7 million consisting of: (a) \$6,640,567 with respect to LBI's portion of employment taxes (including Social Security, Medicare, and state unemployment and disability insurance taxes) on unresolved secured claims filed by former employees; (b) \$20,000 with respect to LBI's ongoing federal, state, and local income tax liabilities and for other administrative tax liabilities that have been assessed against LBI; (c) \$151,664 with respect to LBI's portion of employment taxes (including Social Security, Medicare, and state unemployment and disability insurance taxes) on unresolved priority claims filed by former employees; and (d) \$198,025 with respect to LBI's portion of employment taxes (including Social Security, Medicare, and state unemployment and disability insurance taxes) on unresolved general unsecured claims filed by former employees.

By a motion filed concurrently with this Liquidation Balance Sheet, the Trustee seeks approval of a seventh interim distribution equal to 0.2176% or \$49 million by his Motion for an Order to (i) Establish a Seventh Interim Distribution Fund for General Unsecured Creditor Claims, (ii) Release Reserves from the Fifth Interim Distribution Fund and the Sixth Interim Distribution Fund; and (iii) Make a Seventh Interim Distribution to Holders of Allowed General Unsecured Creditor Claims with a Record Date of June 30, 2020 (the "Seventh Interim Distribution Motion"), which seeks Court approval to make a modest distribution in September 2020. A hearing on the Seventh Interim Distribution Motion is scheduled for August 18, 2020.

Notes Regarding Liabilities

Note 8 – Customer Claims

There are no remaining disputed customer claims. Distributions on allowed customer claims are complete. The customer estate is closed.

Note 9 – General Creditor Claims and ESEP Claims Matters

General unsecured liabilities in the amount of \$13.639 billion are net of the \$9.026 billion distributed to general unsecured claimants as of June 30, 2020, and consist of: (i) \$13.628 billion of allowed unsecured claims (*i.e.*, the remaining 60.25 percent on all allowed unsecured claims); (ii) \$10 million of unresolved claims subject to objections and pending before various appellate courts; (iii) reserves totaling \$27,738 for funds not yet distributed on allowed claims as described in Note 7; and (iv) tax reserves of \$198,025.

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The only unresolved general claims matter pertains to claims (the “ESEP Claims”) filed by former LBI executives who are seeking payment of deferred compensation (the “ESEP Claimants”). The Trustee’s dispute with the ESEP Claimants encompasses two matters:

- (i) the ESEP Claimants’ appeal to the Second Circuit of the District Court’s September 30, 2019 affirmance of the Bankruptcy Court’s decision granting the Trustee’s motions to reclassify the ESEP Claims as unsecured (the appeal is fully briefed and oral argument is scheduled for the week of October 19, 2020); and
- (ii) the ESEP Claimants’ appeal of the Bankruptcy Court’s June 15, 2020 decision granting the Trustee’s motion to dismiss the ESEP Claimants’ complaint filed October 7, 2019, which contends that Claimants’ deferred compensation amounts are not assets of the LBI estate and should be turned over to the ESEP Claimants. On July 20, 2020, the Bankruptcy Court certified the matter for direct appeal to the Second Circuit. On July 21, 2020, the Trustee filed his Petition for Permission for a Direct Appeal Pursuant to 28 U.S.C. § 158(d)(2)(A) with the Second Circuit. If the Second Circuit does not grant the Trustee’s Petition, the District Court will hear the appeal.

For additional information pertaining to the general creditor claims process and ESEP Claims matters, please see the *Trustee’s Twenty-Second Interim Report for the Period October 1, 2019 Through March 31, 2020 and Quarterly Report on the General Creditor Claims Process* (ECF No. 15094).

Note 10 – Administrative Expense Claims

To further progress the administration of the estate, the Trustee filed a motion to establish a third supplemental administrative expense bar date to allow the Trustee to fix the amount of administrative priority claims incurred by the LBI estate from March 1, 2018 through May 31, 2020. (ECF No. 15108.) On June 9, 2020, the Court entered an order establishing July 20, 2020 as the bar date for asserting such administrative expense claims against the LBI estate. (ECF No. 15114.)

The Illinois Department of Employment Security filed an administrative expense claim against the LBI estate prior to the bar date. As a result, the Trustee maintains a reserve of \$1,423 with respect to this administrative claim. The Trustee also maintains a reserve of \$77,035 with respect to the New York City Department of Finance’s administrative claim.

Note 11 – Distribution Procedures Order

On November 5, 2015, the Court entered the Distributions Procedures Order. (ECF No. 13039.) The Distribution Procedures Order furthers the Trustee’s goal of an efficient, orderly wind down by setting reasonable deadlines for claimants to accept their distributions and comply with required tax filings. Since entry of the Distribution Procedures Order, certain claimants have not returned distribution information requested by the Trustee or have otherwise failed to meet distribution requirements. As a result, 933 claims have been expunged, with corresponding

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reductions in gross estate liabilities totaling approximately \$113 million, including 14 claims totaling approximately \$32 million in this reporting quarter. (See First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, and Sixteenth Notices of Claims Expunged Pursuant to the Distribution Procedures Order; ECF Nos. 13291, 13399, 13479, 13568, 13675, 13957, 14073, 14163, 14371, 14433, 14541, 14668, 14683, 14861, 14925, and 15119.)

Note 12 – Subordinated Claims/Equity

Amounts do not include \$14.734 billion of allowed subordinated claims under the settlement agreement with Lehman Brothers Holdings Inc. and other claims that have been subordinated or reclassified to equity. The Trustee does not anticipate making any distributions on account of subordinated claims or equity.

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